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TO: Participating Schools and Lenders

FROM: Diane Todd Sprague, Director

DATE: June 14, 2005

SUBJECT: Educational Loan Notes

### STUDENT LOAN INTEREST RATES INCREASE

Student loan interest rates that had dropped to record-breaking lows over the past three years will increase on July 1, 2005. The new interest rate for Stafford loans during in-school, grace, or deferment periods is **4.70 percent**. For borrowers in repayment or forbearance status, the rate is **5.30 percent**. Interest rates on PLUS loans disbursed since July 1, 1998, will increase to **6.10 percent**.

The annual variable rate for all new Stafford and PLUS loans is based on the bond equivalent rate of 91-day Treasury bills (T-bill) auctioned at the end of May. The bond equivalent rate for 91-day T-bills auctioned on May 31, 2005, is **2.998 percent**, which rounds to **3.00 percent**. The chart below is a quick summary of the new interest rates.

The new interest rates for PLUS loans that were disbursed prior to July 1, 1998, are based on the weekly average of the one-year constant maturity Treasury yield. These rates will not be determined until late June and will be published in the July issue of *Educational Loan Notes*.

Loan Type	Status	FDLP and FFELP Loans	
		7/1/2004 to 6/30/2005	7/1/2005 to 6/30/2006
Stafford Subsidized Loans	Repayment or Forbearance	3.37	5.300
	In-school, Grace, or Deferment	2.77	4.700
Stafford Unsubsidized Loans	Repayment or Forbearance	3.37	5.300
	In-school, Grace, or Deferment	2.77	4.700
PLUS Loans (Parent Loans)	All	4.17	6.100

Attached to this issue of *Educational Loan Notes* are detailed charts which feature the new rates that become effective July 1, 2005, for new and existing loans. If you have any questions, please contact Betty Calloway at 800-642-5626, extension 39639, or via email at [callowayb@michigan.gov](mailto:callowayb@michigan.gov).



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### **ED ALLOWS IN-SCHOOL BORROWERS TO CONSOLIDATE LOANS**

The U.S. Department of Education (ED) has issued Dear Colleague Letter (DCL) GEN-05-08 announcing that borrowers in the Federal Family Education Loan Program (FFELP) will be allowed to consolidate their loans while they are still in college. This unprecedented action will permit borrowers to benefit from today's low interest rates by consolidating their loans before finishing their schooling. The current rate on loans for in-school students is 2.77 percent but this rate will increase to 4.70 percent on July 1. Borrowers in the Federal Direct Loan Program (FDLP) already had the option to consolidate student loans while attending school.

If a lender grants the consolidation request, the loan enters repayment and the borrower waives any applicable grace period. This is the case even if the borrower is currently enrolled in school. Such a borrower will be eligible to obtain a Consolidation loan to repay the loan on which early conversion to repayment was granted, assuming all other eligibility criteria are met. If the lender determines that the borrower is still enrolled, the lender may put the Consolidation loan, now in repayment, into an in-school deferment status at the borrower's request. The interest rate on the loan would be the deferment rate. If a borrower consolidates a Stafford loan, the deferment interest rate should be used in calculating the weighted average interest rate on the consolidation loan.

For additional information and a copy of the Dear Colleague Letter on the Internet go to: <http://www.ifap.ed.gov/dpccletters/GEN0508.html>. If you have any questions regarding this matter please contact Linda Sanchez at extension 39599 or via email at [sanchezlr@michigan.gov](mailto:sanchezlr@michigan.gov).

### **MGA RANKS THIRD IN NATION FOR COLLECTIONS**

One fiscal year ago the Michigan Guaranty Agency (MGA) was ranked 17<sup>th</sup> in the nation among guaranty agencies in terms of its collection efforts. Upon completion of the most recent quarter MGA has risen to number three. This dramatic improvement is directly related to internal process improvements instituted in the Claims and Collections section which emphasize the values Treasury employees strive to attain. Employees in MGA Collections began utilizing additional tools

that have increased efficiency; have eliminated job duplication by the realignment of some duties; and have strengthened their commitment to be firm but fair in their collection efforts. The dedication and commitment of staff have paid off not only in the collection of more monies, but in becoming a more cohesive unit.

### **SPRING SCHOOL WORKSHOPS IN REVIEW**

The Michigan Guaranty Agency, in cooperation with the Education Resource Center, sponsored Spring School Workshops at Grand Valley State University on May 17 and at Schoolcraft College on May 19. Mr. Nate Smith, Regional Training Executive, presented information to 88 Michigan financial aid professionals on:

- Federal policy and regulatory updates.
- NLSDS data conflict resolution.
- What every financial aid administrator should know about taxes.
- Veterans' benefits.
- Policy and procedures manual.

Nate also addressed questions concerning transfer students and loan eligibility, determining withdrawal dates of unofficial withdrawals, and summer term loan eligibility. Participants were also treated to a Jeopardy-type game on the subject of Return of Title IV Funds (R2T4). This game, along with all the topics that were presented, are available upon request to view in PowerPoint presentations.



Workshop attendees at Grand Valley State University.

Among the discussion topics provided during the regulatory highlights session were the President's proposed 2006 budget. The proposed budget

*(Continued on the next page.)*

submitted by the White House envisions an overhaul of federal student aid programs, primarily to fund a significant increase in Pell grants and to permit higher borrowing limits on Federal Stafford loans for first-year and second-year students.



Workshop participants at Schoolcraft College.

Another detailed presentation identified the IRS filing requirements that financial aid administrators are “obligated to know” about students and parents applying for financial aid. These include:

- Whether an individual was required to file a tax return with the Internal Revenue Service.
- What an individual’s correct filing status should be, including requirements for filing as head of household.
- That an individual cannot be claimed as an exemption by more than one person.
- When a mismatch exists between assets reported and income reported from assets.

This section, included in the workshop notebooks, is designed to provide a solid understanding of these elements of the tax code and to provide an easy-to-follow reference for financial aid administrators.

We still have a few workshop manuals available. If you would like a manual or would like the PowerPoint presentations emailed to you, please contact Stacy Cardwell in the School Services Unit at extension 36074, or via email at [cardwells@michigan.gov](mailto:cardwells@michigan.gov).



## **REAL EARLY AWARENESS LESSONS AT PONTIAC NORTHERN HIGH SCHOOL**

It’s a wrap. The Real Early Awareness Lessons (R.E.A.L.) program for spring 2005 began on March 15 and concluded on May 17. The Michigan Student Financial Aid Association (MSFAA) funded the program. Members of the MSFAA Early Awareness/Multicultural Outreach Committee, which includes MGA staff, coordinated the presentations for the six lessons as follows:

**Week 1:** Introduction of the program syllabus and importance of material.

**Week 2:** Extreme Reality – Students learn about budgeting personal finances.

**Week 3:** Career and College Choice – Provides students with search sites and other helpful materials.

**Week 4:** Funding an Education and Managing Debt/Debit.

**Week 5:** Scholarships – Searches and Scams.

**Week 6:** What to do when you are a senior.

**Week 7:** Announcement of scholarship recipients and lunch for R.E.A.L. participants.

Mrs. Yashica Wellons, Mrs. Paula Stranahan, and Ms. Sharon Finley were the teachers who eagerly accepted the R.E.A.L. program into their classrooms. Ms. Catherine Sykes was the primary school contact, and Ms. Jennifer Wallace, MET/GEAR UP, was the liaison who made the initial contact with the school personnel. Many thanks to them all for their willingness to promote the R.E.A.L. program and for giving students at Pontiac Northern High School the opportunity to participate.

### **R.E.A.L. Scholarship Recipients**

Five juniors from Pontiac Northern High School are scholarship recipients of this year’s R.E.A.L. program. A total of 69 students participated in the program, and 28 of those students submitted essays that were reviewed by the scholarship committee. The students will receive their awards upon graduation from high school and enrollment at an eligible Michigan college or university.

The winners are:

Candice Wheat - \$700	Caleb Leidy - \$300
Ashleigh Quinn - \$400	Dayna Humphrey - \$200
Davida Reed - \$400	

CONGRATULATIONS TO THEM ALL!

### **PARTICIPATING LENDER LIST NOW AVAILABLE ONLINE**

As a result of input received from a survey sent to schools last fall, MGA is now making our Participating Lender List available online. The list will be updated monthly, eliminating the need to make written changes to your paper copy. We will, of course, continue to post updates in *Educational Loan Notes* for those of you who prefer to use the list mailed to you on April 28, 2005.

To access the electronic version of MGA's Participating Lender List, go to our Web site at [michigan.gov/mistudentaid](http://michigan.gov/mistudentaid); click on "Financial Aid Administrators," and then on "Participating Lender List." If you have any questions regarding this new option, please contact Pat Fromm at extension 36076 or via email at [frommp@michigan.gov](mailto:frommp@michigan.gov).

### **THE "ED" PIPELINE**

Following is a description and link to some of the most recent ED correspondence for schools and lenders.

#### **Dear Partner May 2005 CB-05-06**

This letter provides information about the Fiscal Operations Report for 2004-2005 and Application to Participate for 2006-2007 (FISAP) for the Federal Perkins Loan (Perkins Loan), Federal Supplemental Educational Opportunity Grant (FSEOG), and Federal Work-Study (FWS) programs.

#### **Dear Partner May 2005 GEN-05-08**

This letter addresses questions relating to the determination of consolidation loan interest rates under FFELP and clarifies the early repayment option available to borrowers under Section 428(b)(7) of the Higher Education Act of 1965, as amended.

#### **Dear Partner May 2005 ANN-05-05**

This letter announces FSA's 2005-06 online, instructor-led training sessions for users of

EDExpress. Topics covered are: Direct Loan processing including advanced uses of Multiple Entry, Disbursement Profile codes, Web functionality, software enhancements, new reports, and the effect on school business processes.

#### **Dear Partner May 2005 CB-05-07**

This letter announces the closeout of the 2003-2004 awards for the Federal Work-Study (FWS), Federal Perkins Loan, and/or Federal Supplemental Educational Opportunity Grant programs based on the final submission of the Fiscal Operations Report for 2003-2004.

### **SCHOOL LIST UPDATES**

The following changes should be recorded by lenders on MGA's "Active Michigan School List" dated January 31, 2005. If you have any questions regarding these changes, please contact Stacy Cardwell at extension 36074 or via email at [cardwells@michigan.gov](mailto:cardwells@michigan.gov).

#### **Institution Name Change**

##### **International Academy of Design, Troy, 021603-03**

The school is now International Academy of Design & Technology.

##### **Michigan Institute of Aeronautics, Belleville, 020603-00**

The school is now Michigan Institute of Aviation and Technology. The email address for Diane Herroon, Financial Aid Director, has changed to [dherroon@miat.edu](mailto:dherroon@miat.edu).

#### **Address Update**

##### **Andrews University, Berrien Springs, 002238-00**

Remove Financial Aid Office and add Student Financial Services, Administration Bldg., Lower Level, Berrien Springs, MI 49104.

#### **Contact Title and Address Change**

##### **University of Michigan School of Dentistry, Ann Arbor, 002325-02**

Change Mary Gaynor's title to Financial Aid

*(Continued on the next page.)*



Officer. Also, delete the address G-311 B Dental Building and replace it with G-226 B Dental Building.

### Contact Change

#### **Baker College, Port Huron, 004673-06**

Delete Christine Weekes. The new contact is Barb Fosgard, Financial Aid Director. Barb's email address is [barbara.fosgard@baker.edu](mailto:barbara.fosgard@baker.edu). Her telephone number is 810-989-2118 and fax number is 810-985-7066.

#### **C.S. Mott Community College, Flint, 002261-00**

Delete Kim Fonger. The new contact is Carlos Cisneros, Financial Aid Director. Carlos' email address is [carlos.cisneros@mcc.edu](mailto:carlos.cisneros@mcc.edu). His telephone number is 810-762-0533. The fax number will remain the same.

#### **Irene's Myomassology Institute, Southfield, 035883-00**

Delete Heather Newsome. The new contact is Frances Hall, Financial Aid. Frances' email address is [frances@imieducation.com](mailto:frances@imieducation.com). The telephone number and fax number will remain the same.

#### **National Institute of Technology, Dearborn, 009828-01**

Delete Donald Hurt. The new contact is Colleen Puckett, Director of Finance. Colleen's email address is [cpuckett@cci.edu](mailto:cpuckett@cci.edu). The telephone number and fax number will remain the same.

### Telephone Number Change

#### **College for Creative Studies, Detroit, 006771-00**

The new telephone number for Kristin Moskovitz, Financial Aid Director, is 313-664-7496.

### Fax Number Change

#### **University of Michigan Law School, Ann Arbor, 002325-03**

The new fax number is 734-763-7761.

### Email Address Change

#### **North Central Michigan College, Petoskey, 002299-00**

Virginia Panoff's email address has changed to [vpano@ncmich.edu](mailto:vpano@ncmich.edu).

#### **Washtenaw Community College, Ann Arbor, 002328-00**

Lori Trapp's email address is [lori@wccnet.edu](mailto:lori@wccnet.edu).

### Voluntary Withdrawal from Title IV Programs

Please delete **SER Business and Technical Institute, 026099-00**, from the white section of the Active Michigan School List.

### LENDER LIST UPDATES

School personnel should record the following actions on the "Participating Lender List" dated April 28, 2005. Please make the appropriate changes in all sections of the list as needed. If you have any questions regarding these updates, please contact Pat Fromm at extension 36076, or via email at [frommp@michigan.gov](mailto:frommp@michigan.gov).

### Name Change

**College Loan Corp/Bank One as Trustee, 833733**, has changed its name to College Loan Corp/JPMCB as Trustee.

### Address Change

**edamerica, 831453**, c/o EdFinancial Services, 298 North Seven Oaks Drive, Knoxville, TN 37922. The telephone number has not changed.

### Non-Participating Lender

**Bank One Education Finance Corp., 803000**, no longer participates in FFELP with MGA. Please delete this lender code.



**“Q” AND “A”****THE HIGHER EDUCATION ACT OF 1965****What is the Higher Education Act of 1965?**

The Higher Education Act (HEA) of 1965, otherwise known as Public Law 89-329, 79 STAT 1219, was established to “strengthen the educational resources of [our] college and universities and to provide financial assistance for students in postsecondary and higher education.” (Higher Education Act of 1965). In short, and what is pertinent to federal financial aid, is the HEA of 1965 outlined the governance and procedures of awarding and disbursing financial aid.

**Why do I sometimes hear the Higher Education Act referred to as the Higher Education Act of 1965 as amended?**

Although the HEA was established in 1965, it is not a permanent law. Since its inception, the HEA has been reauthorized, or amended, eight times in previous reauthorizations in 1968, 1972, 1976, 1980, 1986, 1992, and 1998.

**Why isn’t the Higher Education Act of 1965 made into a permanent law, without expiration?**

Like most federal laws, the HEA does have periodic expiration dates. These expiration dates require reauthorization (described above) that allows Congress, ED, and the higher education community an opportunity to reexamine the purposes of the Act and the programs that serve those purposes. Expiration dates ensure that programs and funding remain true to its mission and purpose.

**When is the next reauthorization?**

The latest HEA was set to expire on September 30, 2004. However, instead of reauthorizing the Act, Congress decided to extend the expiration date one year to September 30, 2005.

**What is the difference between an *incremental reauthorization* and a *reformed reauthorization*?**

In 1992 a publication was brought before Congress entitled: *Radical Reform or Incremental Change?* That publication questioned whether the time had come to completely redo and rethink the current financial aid programs, or to continue to change them incrementally, or in small parts. Incremental reauthorization and reform reauthorization are two options that the 109<sup>th</sup> Congress must now consider.

**Is there any indication as to whether the current Congress will proceed with an incremental reauthorization or a reformed reauthorization?**

Most believe that the 109<sup>th</sup> Congress will most likely pass an incremental reauthorization of the HEA of 1965, *as amended*. In a report published by the Institute of Higher Education Policy, the focus of this Congress will be on modifications and refinements to the existing purposes and programs already in place. Indications that support this assumption include:

- No political or public crisis has been identified that would precipitate any radical changes to the HEA.
- No intellectual foundation in the form of a national commission or national publication has been produced that would bring extraordinary awareness or excitement to this reauthorization.
- Other national priorities (i.e., war on terror, homeland security, the Iraq war, and reforming health care and Social Security) are dominating the domestic agenda as laid out by President Bush.

(Continued on the next page.)

**Do we know of any of the proposed changes in this next reauthorization?**

Incremental changes do **not** mean unimportant changes. The next reauthorization has had several proposed changes that could dramatically affect student/college funding. Some of those changes include:

- A proposed overhaul of current student aid programs to support an increase in the Federal Pell grant program that would increase the maximum Pell grant award in \$100 increments during the next five years.
- The elimination of the Federal Perkins Loan Program and the recall of revolving Perkins loan funds held by participating postsecondary institutions.
- Higher Stafford loan limits.
- A variable instead of a fixed loan interest rate on Federal Consolidation loans as well as the elimination of the single loan holder rule.

There are several other proposals that may be of interest to you. Please contact MGA's School Services Unit at extension 36074 to request materials from our 2005 Spring School Workshop which focused partly on regulatory proposals and changes.

**NOTE:** It should be remembered that these are proposed changes outlined in the President's 2006 budget and are not current rules, regulations, laws, or amendments to the HEA of 1965, *as amended*, at the time of this publication.

**Where can I find the Higher Education Act in its current form?**

The best place to locate the entire updated Higher Education Act of 1965, *as amended*, is on the Information for Financial Aid Professionals' (IFAP) Web site located at [www.ifap.ed.gov](http://www.ifap.ed.gov) under Rules and Regulations.

**Where can I make my voice heard in relation to changes to the HEA I would like see?**

Financial aid professionals may contact their congressional representatives directly, or contact any number of organizations that represent the higher education community. Some of those organizations include:

- American Council on Education – [www.acenet.edu](http://www.acenet.edu)
- Council for Opportunity in Education – [www.triopprograms.org](http://www.triopprograms.org)
- Education Finance Council – [www.efc.org](http://www.efc.org)
- Michigan Guaranty Agency – [michigan.gov/mistudentaid](http://michigan.gov/mistudentaid)
- Michigan Student Financial Aid Association – [www.msfaa.org](http://www.msfaa.org)
- Midwest Association of Student Financial Aid Administrators – [www.masfaaweb.org](http://www.masfaaweb.org)
- National Association of Student Financial Aid Administrators – [www.nasfaa.org](http://www.nasfaa.org)

Have a question you would like to ask? Contact Justin Draeger at extension 31940 or via email at [draegerj@michigan.gov](mailto:draegerj@michigan.gov) to submit your question or to suggest a topic you would like to see discussed in a subsequent issue of *Educational Loan Notes*.

# Calendar of Upcoming Events

## June 2005

26-29 MSFAA Summer Conference  
Crystal Mountain  
Thompsonville, Michigan

## August 2005

9 Mapping Your Future Daytime Chat  
College admissions and standardized tests

## July 2005

3-6 NASFAA 2005 National Conference  
Hilton New York  
New York, New York

4 MGA Offices Closed

If you need further information or wish to submit items for the calendar, please contact Jim Peterson, Editor, at extension 36944, or via email at [petersonj@michigan.gov](mailto:petersonj@michigan.gov).



**Federal Family Education Loan Program  
Regular Variable Rate Stafford Loan Interest Rates  
July 1, 2005, through June 30, 2006**

**Table 1**

<b>INTEREST RATE FORMULA (T-BILL RATE + ADDITIONAL SUM = INTEREST RATE)</b>						
<b>Type of Borrower</b>	<b>First Disbursement Made On or After</b>	<b>First Disbursement Made Before</b>	<b>91-Day Treasury Bill Rate</b>	<b>Additional Sum</b>	<b>Cap</b>	<b>Interest Rate for the Period of 7/01/05 - 6/30/06</b>
“New” Borrower	10/01/92	7/01/94	3.00%	3.1%	9%	<b>6.10%</b>
“New” Borrower	7/01/94 (for a period of enrollment ending prior to 7/01/94)	N/A	3.00%	3.1%	9%	<b>6.10%</b>
All Borrowers (regardless of prior borrowing)	7/01/94 (for a period of enrollment that includes or begins on or after 7/01/94)	7/01/95	3.00%	3.1%	8.25%	<b>6.10%</b>

**Federal Family Education Loan Program  
Regular Variable Rate Stafford Loan Interest Rates  
July 1, 2005, through June 30, 2006**

**Table 2**

<b>INTEREST RATE FORMULA (T-BILL RATE + ADDITIONAL SUM = INTEREST RATE)</b>							
<b>Type of Borrower</b>	<b>First Disbursement Made On or After</b>	<b>First Disbursement Made Before</b>	<b>During Periods</b>	<b>91-Day Treasury Bill Rate</b>	<b>Additional Sum</b>	<b>Cap</b>	<b>Interest Rate for the Period of 7/01/05 - 6/30/06</b>
All Borrowers (regardless of prior borrowing)	7/01/95	7/01/98	In-school, grace and deferment periods.	3.00%	2.5%	8.25%	<b>5.50%</b>
			All other periods.	3.00%	3.1%	8.25%	<b>6.10%</b>
All Borrowers (regardless of prior borrowing)	7/01/98	7/01/06	In-school, grace and deferment periods.	3.00%	1.7%	8.25%	<b>4.70%</b>
			All other periods.	1.07%	2.3%	8.25%	<b>5.30%</b>

**Federal Family Education Loan Program**  
**"Converted" Variable Rate Stafford Loan Interest Rates**  
**July 1, 2005, through June 30, 2006**  
*(Loans That Were Subject to "Windfall Profits")*

**Table 3**

<b>INTEREST RATE FORMULA (T-BILL RATE + ADDITIONAL SUM = INTEREST RATE)</b>				
<b>Type of Loan</b>	<b>91- Day Treasury Bill Rate</b>	<b>Additional Sum</b>	<b>Cap</b>	<b>Interest Rate for the Period of 7/01/05 - 6/30/06</b>
8/10% Loans (made prior to 7/23/92)	3.00%	3.25%	10%	<b>6.25%</b>
7% Loans	3.00%	3.1%	7%	<b>6.10%</b>
8% Loans	3.00%	3.1%	8%	<b>6.10%</b>
9% Loans	3.00%	3.1%	9%	<b>6.10%</b>
8/10% Loans (made on or after 7/23/92)	3.00%	3.1%	10%	<b>6.10%</b>

**Federal Family Education Loan Program**  
**Variable Rate PLUS and SLS Loan Interest Rates**  
**July 1, 2005, through June 30, 2006**

**Table 4**

<b>INTEREST RATE FORMULA (T-BILL RATE + ADDITIONAL SUM = INTEREST RATE)</b>						
<b>Type of Loan</b>	<b>First Disbursement Made On or After</b>	<b>First Disbursement Made Before</b>	<b>91-Day Treasury Bill Rate</b>	<b>Additional Sum</b>	<b>Cap</b>	<b>Interest Rate for the Period of 7/01/05 - 6/30/06</b>
PLUS/SLS*	N/A	10/01/92	**	3.25%	12%	**
PLUS*	10/01/92	7/01/94	**	3.1%	10%	**
SLS	10/01/92	7/01/94	**	3.1%	11%	**
PLUS	7/01/94	7/01/98	**	3.1%	9%	**
PLUS*	7/01/98	7/01/06	1.07%	3.1%	9%	<b>6.10%</b>

\* These loans will not be subject to special allowance payments during the four quarters ending 9/30/05, 12/31/05, 3/31/06, and 6/30/06.

\*\* The rate for PLUS and SLS loans disbursed 10/01/92 through 6/30/98 is indexed to the average of the one-year constant maturity yield for the last calendar week ending on or before June 26, 2005, and is not available at this time. This chart will be updated in the July 2005 issue of *Educational Loan Notes*.